Assurances

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Canadian Risk Management Guideline

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Aller au sommaire du numéro

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GESTION DES RISQUES

par divers collaborateurs de Risk Management reports

Canadian Risk Management Guideline

Canada follows Australia and New Zealand with a new "guideline" on risk management. The Australasian "Standard" (#4360:1995 – see RMR February 1996) broke the ice and received global applause. Now the Canadian Standards Association has published CAN/CSA-Q850-97 (October 1997), "Risk Management: Guideline for Decision-Makers, A National Standard for Canada." It is more a public policy risk document than a financial or operational risk management guide, but it raises the visibility of the discipline again.

First, what are its strengths? It confirms that risk "involves three key issues": the frequency, the consequences, and the perception of loss. I maintain that the public perception of risk is far more important than the experts' mathematical estimates of "how often" and "how much." Section 7.3.2.1 is a concise and complete discussion of public perceptions: personal control; catastrophe potential; the "dread" of consequences; the distribution of risks and benefits; and the degree to which an exposure is "voluntary."

The Canadian guideline also focuses on how risk affect *all* stakeholders. It emphasizes the importance of communications among stakeholders in the process of seeking responses. It identifies a "risk cycle" of estimation, evaluation and control in which methods of financing are implicitly included. It recommends the creation of a "risk management team", a multidisciplinary group of internal and external experts, plus perhaps some stakeholder representatives, to address the major risk issues facing an organization. It suggests creating a "risk information library" that includes documentation of issues, scope of decisions, identification of roles and

responsabilities, identification of decision-makers, details of analyses, stakeholder responses, and support documentation for decisions. This is thorough, but, as the guideline comments, "some information may be confidential to the organization." No mention is made as to how these data are to be protected from public disclosure. It also suggests "third party review" to confirm the integrity of the analysis process, if not the actual risk management decision. Above all, the guideline is concise: 46 pages of text.

Its weakenesses? The term, unfortunately, remains too narrowly defined: "the chance of injury or loss as defined as a measure of the probability and severity of an adverse effect to health, property, the environment, or other things of value." Too limited and too verbose! Risk is simply "deviation from the expected." It has both positive and negative faces, like Janus, suggesting opportunity and harm. This point is tacitly acknowledged in the guideline in a discussion of the term ALARA – As Low As Reasonably Achievable: "risk is acceptable only if a compensating benefit is available." The definition of risk management is equally pedantic: "the systematic application of management policies, procedures and practices to the task of analyzing, evaluating, controlling, and communicating about risk issues." In other words, "risk management is the management of risks!" We can do better than that. My wording: "a discipline for living with uncertainty."

Another flaw: apparently the Technical Committee that prepared the guideline never reviewed the Australasian Standard, since it isn't mentioned in the bibliography. Neither the Day Report (Canada) nor the Cadbury Report (United Kingdom) are noted and "financial risk" is curiously omitted. The definition of stakeholders overlooks two critical groups: customers and suppliers!

While this new Canadian guideline is a contribution to the development of the discipline, it remains too narrow, a public policy document rather than a complete overview of risk management, including financial and operational aspects. For a copy, at C$38 each, contact Canadian Standards Association, 178 Rexdale Boulevard, Etobicoke, Ontario, Canada M9W 1R3. Telephone: 416-747-4000. Fax: 416-747-2475.

The concept of risk is a peculiarly modern one; in the Middle Ages, for instance, one simply believed that things "happened" according to the providence of God or nature. Modernity, in contrast, is characterized by the omnipresence of "manufactured risk," man-made hazards that are the result of what man has done to nature, rather than what nature does to man. The Frankenstein monsters of pollution, overcrowding, global warming and techno-ennui - our creations, not nature's – are out of control.

Living in a world of manufactured risk makes us extremely self-conscious; life becomes a series of complex calculations in which we "establish a porfolio of risk assessment" as we try to construct a viable identity.

Robert S. Boynton, writing about the ideas of Anthony Gliddens, of the London School of Economics, in "Letter from London – The two Tonys," *The New Yorker*, October 6, 1997.

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